THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

FOREST RENEWAL BC: PLANNING AND ACCOUNTABILITY IN THE CORPORATION; THE SILVICULTURE PROGRAMS

SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS REPORT

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British Columbia

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Planning and Accountability in the Corporation; The Silviculture Programs

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To the Honourable,
The Legislative Assembly of the
Province of British Columbia
Victoria, British Columbia

Honourable Members:

I have the honour to present herewith the *Eighth Report* of the Select Standing Committee on Public Accounts for the Fourth Session of the Thirty-Sixth Parliament.

The *Eighth Report* covers the work of the Committee on the matter of **Forest Renewal BC: Planning and Accountability in the Corporation; The Silviculture Programs.**

Respectfully submitted on behalf of the Committee.

Mr. Rick Thorpe, MLA
Chair

Ms. Evelyn Gillespie, MLA
Deputy Chair

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PART I - PLANNING AND ACCOUNTABILITY IN THE CORPORATION

INTRODUCTION

History of Forest Renewal BC and its Subsidiaries

In Canada, most provinces have put revenues from timber harvesting into general revenues, which are then used to fund a range of non-forestry activities such as health, education and social services. In British Columbia, a forest renewal corporation has been created to ensure that some of those revenues are used to fund forest renewal activities throughout the province. In 1994, the government created a Crown corporation called "Forest Renewal BC" to carry out this role.

By the end of the 1980's, British Columbia's forest sector was facing serious challenges as a result of growing international competition, increased pressures for more sustainable management of the province's forest resources, and a harvest rate that could not be sustained. On April 3, 1993, the Premier of British Columbia announced the creation of the Forest Sector Strategy Committee to develop a forest sector strategy for the province. The committee was composed of individuals representing government, forest sector associations, First Nations and industry. In 1994 that committee issued a "Forest Renewal Plan". That plan included 5 goals:

- To renew the land and keep the forests healthy
- To invest in the forest lands which generate much of the province's wealth
- To ensure sustainable use and enjoyment of forests
- To ensure continued availability of good forest jobs
- To ensure the long-term stability of communities that rely on the forests.

The plan also announced the government's intention of investing $2 billion directly into forest renewal over its first five years, and establishing a Crown corporation (Forest Renewal BC) to deliver the elements of the new plan.

As a result, Forest Renewal BC ["FRBC"] was established in 1994 to implement the Forest Renewal Plan. The corporation is governed by the terms of the *Forest Renewal Act, R.S.B.C. 1996, c. 160,* and its mandate is to carry out the purposes of the Act, as described in section 2. Those purposes are to renew the forest economy of British Columbia, enhance the productive capacity and environmental value of forest lands, and to strengthen communities by providing training and creating jobs for forest workers. FRBC works to achieve these goals in conjunction with partners, including forest companies, workers, First Nations, environmentalists, communities and the provincial government.

As a result of recent corporation reorganization, the corporation has divided into 3 business units. The Communities & Workforce business unit oversees FRBC's investments that aim to provide transition support for forest-dependent communities and workers experiencing job loss. The Forests & Environment business unit supervises the corporation's land-based investments (large and regionally-delivered programs within the Land and Resources, and Environment, activity areas) which focus on growing more, high-value timber, restoring watersheds damaged by past forest development activities, and increasing knowledge, techniques and innovations for managing forests sustainably. The Value-Added business unit takes care of FRBC investments with industry partners that aim to strengthen and expand B.C.'s value-added sector.

In June 1997 the government announced establishment of a "Jobs and Timber Accord". The goal of the accord was to create a total of 37,800 jobs in British Columbia's forest sector by 2001. FRBC committed to applying 70 percent of its total expenditures (up to $300 million) to land-based activities (large, regionally-delivered programs within the corporation's land and resources and environment activity areas), and to setting aside $25 million for enhanced forestry management pilots in innovative forest practices. In order to fulfill its objectives, two subsidiaries of FRBC were created: New Forest Opportunities Ltd. assists displaced forest workers on the lower coast and Vancouver Island in finding employment, while the Jobs and Timber Advocate monitors, reports on and makes recommendations to the government regarding the state of the forest sector in British Columbia.

Stumpage

In British Columbia, the Ministry of Forests administers 81.7 million hectares of Crown land. Funding for FRBC and its subsidiaries derives primarily from stumpage paid by forest companies and others for the right to harvest timber in Crown land in the province. When FRBC was created in 1994, stumpage revenue targets were increased by the government, effective April 30, 1994, following economic analysis and industry consultation. This increase is often referred to as "superstumpage". Under the *Forest Renewal Act*, FRBC is entitled to 80 percent of the increases in stumpage and royalty revenue attributable to changes in rates or stumpage, less an annual offset of up to $50 million. Effective June 1, 1998, the percentage of revenue received by Forest Renewal BC varies based on a new pricing structure.

When FRBC was created in 1994, it was expected that revenue would average approximately $400 million per year over the course of 5 years, to be dedicated to renewing forests and the forest industry. While this indeed has been the average revenue over the 5-year period 1994/95 to 1998/99, revenues have decreased markedly in recent years. For example, total revenues (stumpage revenue plus investment and other income) fell from $534 million in 1997/98 to $223 million in 1998/99. For the year ended March 31, 2000, total revenues were approximately $332 million. Fluctuations in the corporation's revenue may largely be explained by the volatility of the lumber market, fluctuations in harvest levels and variations in the Canada – United States exchange rate.

AUDITOR GENERAL AND COMMITTEE REVIEW

In 1998, the Auditor General undertook two performance audits of FRBC. In particular, noting that in its four years of operation FRBC has spent more annually than many ministries have, the audit examined how the corporation plans for its program investments and accounts for its performance. The audit of planning and investment allocation focused on the fiscal year 1998/99, while the review of accountability centred on the 1998/99 business plan and the 1996/97 annual report. The actual audit costs, which included consultant and travel costs, totalled $163,655.02, and involved 3,194.1 hours of work by the audit team.

The results of the audit were reported in the Auditor General's 6th report for 1999/2000, entitled "Forest Renewal BC: Planning and Accountability in the Corporation; The Silviculture Programs". That report, which was issued in October of 1999, contained 19 recommendations to the corporation regarding planning and accountability, calling for improvements in definition of roles and responsibilities, strategic direction, business plan development, allocation of investment funding, and monitoring, measuring and reporting on performance. The report also included 21 recommendations respecting FRBC spending on silviculture programs (the Enhanced Forestry Program and the Backlog Silviculture Program).

In February of 2000, your committee met to consider the Auditor General's findings and recommendations, and to hear evidence from representatives of FRBC and the Ministry of Forests. At that time, committee members were advised that 12 of the Auditor General's recommendations had been fully implemented. The committee also received copies of the corporation's work plan, which outlines how, by whom and when each Auditor General recommendation will be implemented. According to the work plan, completion of all outstanding recommendations is expected by September 2001.

PLANNING AND ACCOUNTABILITY IN FOREST RENEWAL BC

Roles and Responsibilities

Governance Information for FRBC Board Members

The Auditor General recommends that:

- *The terms of reference for the board of directors of Forest Renewal BC should be reviewed and updated to ensure that they are comprehensive and include current governance expectations. These should also be incorporated into one handbook*

FRBC is governed by a government-appointed board, consisting of 6 government directors and 12 non-government directors representing labour, First Nations, environmental, industry and community groups. The board has also established committees to provide it with advice on the corporation's areas of activity. Those committees are the land and resources, environment, value-added, workforce and communities committees. In addition, there is an audit committee, and a research working group which advises the board on strategic direction and the effectiveness of research and development investments.

Committee members learned that at the time of the audit, FRBC's board of directors was not receiving sufficient direction regarding Crown corporation governance, such as information about other governance agents and their roles, strategic planning roles and processes, Director and CEO evaluation processes, new director orientation, legislative guidelines and accountability expectations.

However, according to FRBC witnesses, the Auditor General's recommendation regarding governance expectations has been substantially implemented. Since the audit was completed, FRBC has moved to provide board members with information materials including legislation, terms of reference for all committees, board members duties, corporation organization charts, as well as copies of current business and strategic plans and the 1994-99 report. In addition, board members have the opportunity to attend orientation sessions organized by the Crown Corporations Secretariat.

Coordination between FRBC and Ministries

The Auditor General recommends that:

- *Forest Renewal BC should further clarify the roles and responsibilities between itself, the Ministry of Forests and the Ministry of Environment, Lands and Parks to ensure that there is no duplication between these three organizations, and to ensure that forestry and environment priorities are managed in a coordinated manner*

Committee members learned that, while coordination of planning has generally worked well within the corporation itself, the corporation relied on over 300 staff in the Ministry of Forests and Ministry of Environment, Lands and Parks to deliver FRBC programs in 1998/99. The audit revealed that often the mandates of the 3 organizations have overlapped or conflicted. Service agreements and Memoranda of Understanding between FRBC and ministries have helped to clarify past confusions regarding roles and responsibilities, however the Auditor General advised committee members that more coordination is needed between the corporation and these other agencies. Concerns were expressed from within the committee regarding whether cost inefficiencies had been created by the failure to clarify respective roles and responsibilities.

FRBC's Chair and CEO argued that while there is much interaction between the three agencies, the extent of jurisdictional overlap has been overstated. He also advised that, in his view, any overlap in roles has not contributed to cost inefficiencies, which may be more attributable to the corporation's rigorous project funding approval process. Finally, the committee was advised

that while funds have flowed from FRBC to employ ministry staff to do forest renewal work, that money is not unallocated and discretionary.

Work to address the Auditor General's concerns about role and responsibility clarification is in progress, and the corporation will be monitoring the performance of each ministry under service agreements which have been executed for the period 1999-00. Roles and responsibilities will also be addressed in contract negotiations for 2000-01. Revision of the regional resource management planning priority process has also served to clarify respective roles and responsibilities of FRBC and the ministries.

Strategic Planning

The Auditor General recommends that:

- *The board of directors of Forest Renewal BC should complete its strategic plan and have it reviewed and approved by government and reported publicly*

Completion of Strategic Plan

A significant conclusion of the Auditor General's report was that $1.2 billion of the $1.8 billion spent by FRBC since 1994 has been spent without the corporation knowing what it wants to achieve. Although the corporation has had strategic plans for each of its major business areas since 1994, and has given stakeholders sufficient input into strategic planning processes, not until August 1999 did FRBC issue its first corporate 5-year strategic plan. Prior to that time, strategic plan direction came from the Forest Renewal Plan released in 1994, the Forest Sector Strategy Advisory Committee, the corporation's boards and committees, and a regional planning process.

The committee was interested in the impact of the absence of a strategic plan for the corporation over its first 5 years of operation. FRBC representatives noted that, although there was no single, corporate-wide strategic plan until relatively recently, there was in fact strategic planning occurring within the corporation, and program guidelines were in place quite early on. In particular, 5 committees of the board set to work immediately following the corporation's creation in 1994 to develop a framework to guide FRBC's spending. In 1997, there was a recognition that the corporation required a more comprehensive strategic plan, and development of the plan has been ongoing since that time.

FRBC witnesses outlined some of the challenges faced by the corporation in the development of its strategic plan. One challenge drawn to the attention of committee members was the corporation's rapid growth, and restructuring due to changes from a proposal-driven to a multi-year agreement system, and then a plan-driven system. Initially a bottom-up, proponent-driven process was used by the corporation to allow it to entertain new ideas and approaches to doing business. This approach resulted in FRBC receiving 8,000 proposals, representing approximately 3,500 contracts. As early as fall 1996, the board realized a rapid departure from the original vision for the corporation was occurring. However, it took significantly longer than the board would have liked for the business plans to be adapted, due to difficulties getting partners to report information in a timely and accurate manner. Since that time, reporting processes have improved, as the corporation now controls all accountability mechanisms internally, and collects and interprets all data for planning purposes.

FRBC representatives also noted that a second challenge in the corporation's strategic planning process was the fact that FRBC picked up silviculture investment systems that were already in place and used by industry and government.

Concerns were also raised within the committee about growth in FRBC staff, in the absence of a strategic plan, over its first 5 years of operation. In particular, when FRBC was created in 1994 it was estimated that corporation staff would total 20 to 25. However, as of 1998/99 there were 193 individuals employed in the corporation, not including 60 staff in FRBC subsidiaries.

In response to these concerns, FRBC witnesses noted that when the corporation was created the government had a broad vision for it, and that there was no organizational plan to guide staffing levels. Furthermore, while initially regional offices had not originally been contemplated, when the FRBC board began its work it became clear that a regional structure was necessary, and that has resulted in more staff than originally anticipated. It was also emphasized that as a percentage of the corporation's annual investments, its administrative budget has been relatively small.

Finally, FRBC witnesses reported to the committee that currently there is some consideration being given to review of a strategic overview document by the Cabinet Committee on Crown Corporations.

FRBC's 1999-2003 Strategic Plan

FRBC representatives provided the committee with a description of the corporation's strategic planning process, and the content of the 1999-2003 strategic plan. In doing so, the Chair and CEO of FRBC advised committee members that strategic planning was undertaken with the knowledge that revenue was likely to decrease significantly in the near future. As such, strategic initiatives have been put in place to fundamentally change the corporation's operating environment.

FRBC's 1999-2003 strategic plan includes seven strategic objectives and four corporate commitments which were developed on the basis of stakeholder consultation and analysis of the corporation's investment portfolio over the course of its first 5 years of operation.

The seven strategic objectives identified in the 1999-2003 Strategic Plan are:

- **Sustainable harvest** - A target has been set to increase, as a result of FRBC-funded silviculture activities, the volume of timber available for harvest by 25 million cubic metres over 5 years (1999 – 2003). According to corporation representatives, this objective was developed after at least a year of analysis by timber supply and silviculture specialists, which involved examination of the recent provincial silviculture strategy, work to estimate the volume increase as a result of the tree improvement program, and analysis of timelines for completion of the backlog program. As part of this objective, FRBC plans to phase-out its investments regarding access to harvesting areas (by road maintenance and bridge replacement). FRBC witnesses submitted that these activities are not considered by the board to be central to the corporation's mandate. Therefore, industry and/or ministries will bear increased responsibility for this work. It was the view of FRBC witnesses that costs to access harvesting areas are costs that, over the long term, would be incurred by industry in any event, and recognized in the stumpage system.
- **Enhance environmental values** – This objective involves investment in forest watershed restoration, and promotion of environmental stewardship and values. Over the next 5 years, FRBC plans to work with partners to complete the restoration of 20 percent of the highest-priority watersheds in the province that have been damaged or seriously threatened by past forest development activities.
- **Strengthen sustainable forest management (enhance knowledge)** – FRBC plans to work with partners to identify and address key gaps in knowledge for sustainable forest management. The corporation plans to address knowledge gaps to improve future timber supply reviews and land and resource management plans by April 1, 2003.
- **Strengthen and expand the value-added sector** - This objective involves increased sales for British Columbia's value-added firms benefiting from FRBC investments by 10 percentage points over the expected industry growth rate of 20 percent. The strategic plan states that, using conservative assumptions, an increase in FRBC investments of $100 million over the

next 5 years will generate an additional $150 million in value-added sector profits. These figures were arrived at after consultation with industry. As well, the federal government has done much research to assess normal industry growth rate, and to determine what a reasonable expectation for return on investment would be if FRBC were to invest extra money.

- **Support forest workers through transition** – FRBC plans to provide re-employment services to long-term forest sector workers who are facing permanent displacement.
- **Support forest communities experiencing major job loss** – This objective includes a plan to increase, through FRBC investments, forest economic diversification and forest sector employment in more than 30 forest-dependent communities experiencing major job loss.
- **Increase Forest Renewal BC's effectiveness and efficiency** - The corporation will seek to increase its effectiveness and efficiency in order to optimize the impact of its investments, while maintaining low administrative costs. In this regard, the committee notes that other jurisdictions have employed different forest management funding models to administer forestry revenues. For example, Alberta and Quebec both use trust fund models to finance forest activities, rather than Crown corporations.

FRBC witnesses explained that while the corporation has looked at the trust fund model, and has to some extent been influenced by elements of that model in its evolution, it would be difficult to transplant such a model into British Columbia. For example, trust fund models focus on land-based activities, and therefore would not be compatible with the type of partnership arrangement used by FRBC. Furthermore, it was pointed out that land tenure systems in jurisdictions using a trust fund model vary from British Columbia's system, where companies operate on renewable, volume-based (rather than land-based) forest licences on common pieces of property.

The strategic plan also outlines four corporate commitments, which provide a framework for the corporation's investment strategy. Those commitments are regional equity, First Nations participation, stakeholder involvement and employment creation.

FRBC witnesses informed the committee that all investments must now contribute to the seven strategic objectives, and be consistent with the four corporate commitments enunciated in the strategic plan. Currently, FRBC investment officers in all business units monitor compliance with the objectives and commitments by examining and evaluating proponents' work plans, and by audits of multi-year agreements. It is expected that monitoring will improve as the corporation's performance management system becomes more developed.

While representatives of the Auditor General's office informed the committee that the strategic planning of the corporation is a step in the right direction, they emphasized that they have not had the opportunity to review the plan in detail. However, the Auditor General is currently conducting a follow-up review of its 1998 audit, and the audit team will be reviewing the strategic plan as part of that process. The corporation also plans to review the strategic plan on an annual basis.

Business Planning

The Business Planning Process

Section 10(6) of the *Forest Renewal Act* requires FRBC to submit an annual business plan to the Minister of Forests, outlining revenue, expenditure and lending proposals, and including information about the corporation's assets and liabilities. Pursuant to section 10(7) of the Act, the business plan must be tabled in the Legislative Assembly, and then stands referred to a select standing committee with responsibility for forests.

The Auditor General's review revealed that, although it did not have a completed strategic plan until August 1999, FRBC's business planning process for the fiscal year 1998/99 was reasonable and the investment allocations made for 1998/99 were consistent with the corporation's mandate, strategic objectives and guidance given by government and stakeholders.

Concerns were expressed from within the committee about the apparent late start that the corporation got in its business planning cycle, and a lack of adherence to investment principles identified in the 1994 Forest Renewal Plan. In particular, that plan had stated that forest renewal investments would be:

- *Permanent*, in that investments were to be continuous, to sustain the public forest for the long term
- *Independent*, in that by law all net revenue of the corporation was to go directly into renewal of forests, and not into general government revenues
- *Equitable*, in that investment dollars were to be distributed fairly throughout all regions of the province
- *Effective*, in that all partners were to take part in investment decisions
- *Accountable*, in that the government was expected to bear responsibility to the public and to taxpayers

In response to these concerns, the Chair and CEO of FRBC advised that business planning was the first order of business for the corporation's board after it had been fully appointed in December 1994. Because the first year of the corporation's operation was only 7 – 8 months long, business planning first occurred for the 1995/96 fiscal year. Acknowledging that it was an unusual circumstance to operate for one year without a business plan, representatives of FRBC nevertheless emphasized to committee members that the board at all times had a clear vision of where they were going, particularly in terms of revenues. It was also submitted that the bottom-up, proposal-driven process originally used by the corporation presented a challenge to business planning, in that it differed from previous processes and required an identification of the drivers of the business plan. Finally, FRBC witnesses took the position that in proceeding with business planning, the board has been mindful of the five investment principles contained in the Forest Renewal Plan.

Resource vs. Social Objectives

The Auditor General recommends that:

- ***The direction given by FRBC's board to its staff for allocating program investments should include both social and resource targets. Targets should include recognition of both short-term and long-term objectives, and guidance should be provided about how these targets are to be balanced so that staff can make informed trade-offs in their allocation decisions***

The Auditor General's report noted that during development of its business plan, FRBC is required to make decisions regarding how to allocate funds amongst activity areas, programs, regions, planning units and licensees. While allocations made for 1998/99 were found to be consistent with the corporation's mandate, strategic objectives and the guidance received from government and stakeholders, the Auditor General noted that allocations within land-based programs were not made with a clear understanding of the resource objectives to be achieved.

In this regard, he noted that while the government provided FRBC with specific job targets (arising out of the Jobs and Timber Accord), it did not provide either long-term or short-term resource-based targets to allow staff to determine trade-offs between resource and social objectives. Concerns were expressed during committee deliberations about whether the corporation has indeed been focused on jobs to the detriment of resource objectives.

During its deliberations, the committee learned that in 1999, new investment principles were established to provide more direction to regions in making investment decisions. Now, FRBC plans to select its program investments based on:

- Each program's expected contribution to the achievement of the corporation's strategic objectives;
- Each program's contribution to meeting the corporate commitments (regional equity, First Nations participation, stakeholder partnership, employment creation)
- 5 corporate investment planning principles:
  - contribution to achieving strategic objectives
  - proportion of total funding flowing to investments managed through partnership arrangements is to be maintained at current levels
  - major stakeholder groups to have continued opportunity to participate in investment planning process
  - individual land-based investments must be explained and defended in terms of their potential for return on investment
  - total annual employment created through investments is expected to be proportional to that created in previous years.

During his testimony to committee members, the Chair and CEO of FRBC also submitted that in his view the focus on jobs has not detracted from resource objectives. He stated that much work was done around the Jobs and Timber Accord to consult with the major forest corporations in the province regarding jobs and resource objectives, and to measure how much money it costs to create a job by various forest activities. However, he stressed that the process was not entirely corporate-driven and top-down. Instead, regions were provided with information regarding jobs to be created, and were asked to provide feedback about its feasibility. Committee members also learned that investment planning done by FRBC staff for land-based programs now includes an identification by each of the corporation's management units of local resource priorities as they relate to strategic objectives and corporate commitments, and the development or resource management plans for the region. Investment decisions are taken in the context of local priorities identified, and are then incorporated into the corporation's business plan.

Some committee members were also interested in the role FRBC played in setting the job targets in the Jobs and Timber Accord, and any direction coming to the corporation from government to create a specific number of forest sector jobs, as part of that accord. In this regard, page 5 of the accord document specifies that "job creation objectives will be further enhanced through the improved delivery of funds and programs from Forest Renewal BC so that at least 5,000 direct and 5,000 indirect jobs will be created.

Committee members were advised that when the government adopted the Jobs and Timber Accord, FRBC was part of the discussion around that accord.

Allowable annual cut and allocation decisions

The Auditor General recommends that:

- *For land-based programs, allocations by FRBC should be directed to where the needs are the greatest and to where the funding can be used cost-effectively*

Allowable annual cut is the annual rate of timber harvesting specified for an area of land by the chief forester, who sets allowable annual cuts for timber supply areas and tree farm licences in accordance with section 7 of the *Forest Act.*

A key finding of the Auditor General's report was that, in its business planning, FRBC's allocation decisions among planning units and licensees were heavilly weighted on the allowable annual cut criterion. For example, the higher the allowable annual cut, the more funding the planning unit or licensee received from the corporation. The Auditor General noted that this should not be the main criterion to determine allocation, because it does not address impending timber supply problems in a direct manner, and limits FRBC's abillity to allocate funding to where it is most needed. It was suggested by the Auditor General that a more appropriate approach would be to allocate investment based on priorities, needls and capacity.

The committee also received correspondence on this issue from representatives of the Northern Forest Products Association, the districts of Chetwynd, Tumber Ridge, Houston and New Hazelton, as well as the Corporation of the Village of Burns Lake.. That correspondence expressed serious concern about a statement contained in the Auditor General's report that "allocation [of funding] by AAC should not be the main driver for the allocations because it does not address impending timber supply problems in a direct manner and limits Forest Renewal BC's ability to allocate funding to where it is most needed. An alternative model would be to allocate program investments based on priorities, needs and capacity – not on AAC" (page 67). The president of the Northern Forest Products Association noted that when FRBC was established, the northern forest industry and northern communities voiced strong objection to a needs-based allocation model, and these objections were addressed in section 4(1)(a) of the *Forest Renewal Act.* That provision requires FRBC to plan and implement a regionally equitable program of expenditures in order to carry out the purpose of the legislation.

The Auditor General advised the committee that the comment referred to in correspondence from the northern forest industry and northern communities related to allocation of funds *within regions*, rather than between them, and therefore did not contain any suggestion as regards changes in allocation of funding *between regions.* Allocation of funding between regions is discussed below in this report at page 20. Nevertheless, representatives of the Northern Forest Products Association pointed out that in large forest regions, such as the Prince George Forest Region which extends over 500 miles, the issue of equity *within* a region is just as important as it is *between* regions. It was also emphasized that the northern forest industry is of the view that allowable annual cut should remain the basis for allocating FRBC funds *within and between* regions, to ensure that FRBC funds are returned to the forests from which they are generated. The committee has been advised that since the exchange of correspondence, representatives of the Auditor General's office and the Northern Forest Products Association have met to clarify their respective positions.

Tabling the Business Plan in the Legislative Assembly

During the committee's deliberations, concerns were raised about failure to table the corporation's business plan on a timely basis, for referral to the Select Standing Committee on Forests, Energy, Mines and Petroleum Resources. In the past, the corporation's annual business plan has been tabled in the Legislative Assembly sometime between early May and late August. FRBC's Chair and CEO acknowledged that there have been challenges in getting the business plan out before the end of the fiscal year, but noted that for 1999/00, the plan was ready to be tabled in May 1999. The corporation's 2000/01 business plan was tabled in the Legislative

Assembly on April 3, 2000. FRBC witnesses also submitted that it is the minister who decides when the plan will be tabled, and that FRBC does not have any input into the work of the select standing committee.

Content of the Business Plan

The Auditor General recommends that:

- *FRBC should enhance its business plan to ensure that it contains adequate accountability information. For guidance on how to achieve this enhancement, the corporation should review the "Guidelines for Crown Corporations for the Preparation of Strategic and Business Plans" produced by the Crown Corporations Secretariat, and "Enhancing Accountability for Performance: A Framework and an Implementation Plan", produced by the Deputy Ministers' Council and the Office of the Auditor General*

The audit revealed some shortcomings in the content of FRBC's business plan for 1998/99. In particular, it lacked performance measures and targets, and information to allow for comparison from year to year. For example, the 1997/98 business plan was organized according to program investment themes, while the 1998/99 plan was developed around strategic objectives. As well, significant discrepancies were found when trying to compare the 1997/98 plan with the updated forecast contained in the 1998/99 plan. These were not explained in the 1998/99 plan.

The committee heard that these variances occurred, particularly in the early years of the corporation, due to a desire to achieve the annual spending target of $400 million. As well, it was pointed out that in some cases funds were transferred from one activity area to another as part of the corporation's attempt to re-work the business plan to a new set of themes, and a focus on strategic objectives.

Committee members learned that FRBC has reviewed the CCS "Guidelines for Crown Corporations For the Preparation of Strategic and Business Plans", and is working to complete and incorporate performance measures into the business planning process. The corporation has also been working with the CCS to address certain recommendations made by the Budget Process Review Panel in September 1999. Those recommendations call for legislation requiring all ministries and public bodies in the government's reporting entity to publish annual 3-year business plans focusing on accountability for results (and including performance indicators and expected results), as well as annual reports that indicate actual results for a year, compared to the year's business plan.

Actions have also been taken by the corporation in the area of performance measures and targets - as of 1999/00, business plans will reflect performance measures and targets relating to each strategic objective.

Forest Renewal BC Investment Decisions

FRBC makes program investments in 5 primary areas:

- Land and Resources: including silviculture, bridge replacement and tree improvement programs
- Environment: including watershed restoration, private forest biodiversity and Crown land use planning activities
- Communities: including community business and economic development programs
- Workforce: including employment and training programs, and transition programs
- Value-added: including value-added business development and marketing programs, and technology transfer and industry infrastructure investments

In its earlier years, FRBC investment spending increased steadily from year to year. In 1994/95, expenditures were approximately $37 million, and thereafter amounted to $158 million for 1995/96, $396 million for 1996/97, and $596 million for 1997/98. During this period, staff

increased from 30 to approximately 200. However, spending has been decreasing since 1997/98, and during that year there was a re-organization within the corporation. The Chair and CEO of FRBC explained to the committee that during that year, the corporation developed what it considered to be a more sustainable business plan which included investments of $400 million, after indications of an impending downturn in the forest industry, particularly with respect to the Asian market. As well, at that time the corporation began to move from its proposal-driven system, which was a burden to manage, to a more plan-driven system. Further restructuring took place in 1999, and staffing levels were reduced to 115.

Recent downturns in the forest sector have resulted in an increase in demand for FRBC funds to help displaced forest workers, forest-based communities and the industry. According to the corporation's 2000/01 business plan, program investment expenditures for 2000/01 are estimated to be $302 million. In this challenging environment it is becomingly increasingly important that the corporation ensure it is getting good value for money spent, and that money spent will meet the corporation's objectives. However, committee members were made aware that there has been insufficient analysis of the financial, economic and social costs and benefits of program investment alternatives and proposed projects, the FRBC board has received little analysis with which to assess investment alternatives for FRBC's business plan, and that in most cases only a cursory level of analysis has been provided to the board before it made its decision to approve or reject a proposed program.

Funding Principles

In order to make investment spending decisions , the corporation has established 9 funding principles. Five of these (consistency with corporate mandate, community stability, jobs, sustainability and environmental values) are re-statements of FRBC's mandate as contained in the *Forest Renewal Act*. The remaining four principles are wise spending, incrementality, regional equity and sensitivity, and First Nations participation. The committee discussed each of these four principles in detail.

Wise spending

The Auditor General recommends that:

- *Wise spending guidelines for Forest Renewal BC's programs should be developed and communicated*

The wise spending principle means that projects funded by FRBC should demonstrate economy of delivery, efficiency of operation and effectiveness in achieving desired results.

While most of the funding principles are accompanied by related policy guidelines to aid FRBC staff in their application, the Auditor General's review indicated that policy guidelines with respect to the "wise spending" principle have not been well-developed.

While the corporation has accepted the Auditor General's advice that more work must be done in this area, it was also pointed out to committee members that FRBC's new performance management and investment management systems, once fully implemented, will improve the board's ability to determine if the principle is being adhered to. The committee also heard that the wise spending principle has now been incorporated into the strategic objective of increasing the corporation's effectiveness and efficiency, which focuses on performance management and cost efficiency. To further this objective, the corporation has instituted a quarterly business review process that includes a review of key cost indicators, and each region is developing a range of acceptable cost limits.

Incrementality

"Incrementality" for the purposes of FRBC's investment decisions means that the corporation's investments must be above and beyond what industry or government are already doing or are obligated to do to renew or protect forest resources.

Concerns were articulated during the committee's deliberations about use of FRBC money to fund government responsibilities, violating the investment principle of independence established by the Forest Renewal Plan in 1994. Initially, the corporation was guided in its investment decisions by the incrementality principle. However, increasingly the corporation has provided top-up funding to programs already the responsibility of government or industry. For example, the Auditor General's report notes that Ministry of Forests roads and bridges, backlog and inventory, recreation and land acquisition programs were proposed as candidates for FRBC funding, and that by the end of 1996, FRBC had designated between $676 million and $776 million for government purposes over an approximately 5-year period. However, in September 1997 $300 to $400 million of this was rescinded due to criticism from stakeholders, although the principle was broadened to include "beneficial initiatives". This broadening allowed FRBC to fund any program or project previously the responsibility of government or industry, as long as it was considered beneficial. This was a departure from the original intent of FRBC to provide an additional quantity of funding above and beyond funding already being provided by government or industry, and meant that less funding was available for truly incremental programs.

The committee also learned that in 1998/99, $32 million of FRBC money was spent on items previously the responsibility of the Ministry of Forests, such as backlog silviculture, road maintenance, recreational site maintenance and forest health activities. FRBC's Chair and CEO emphasized that this was an unusual situation, in that the Deputy Minister of Forests had requested the assistance on a one-time basis only. That request was carefully considered by the board before being approved.

In this regard, it is important to note that the Auditor General has stated that FRBC's inability to maintain its planned annual expenditures of $400 million for 1999/00 and beyond is in part due to the fact that it has spent much of its reserves on funding programs that are already the responsibility of government.

FRBC's Chair and CEO submitted to committee members that while the corporation has moved away from its original direction and provided funding for work otherwise the responsibility of government or industry, it has only done so after it has first been determined that FRBC participation will have positive effects, such as further development of the forest industry in British Columbia, increased compliance with the Forest Practices Code or acceleration of work already being funded by the government. For example, the corporation has provided Forest Practices Code and inventory training, based on the rationale that FRBC is about re-training the workforce. In this regard, approximately $18 million was spent by the corporation in 1994/95 to train forest workers about inventory and Code compliance. However, as a result of the corporation's restructuring in 1998, funding for inventory work and Forest Practices Code training has ceased. The corporation also decided to fund backlog silviculture work in the northeastern part of the province, in order to speed up the work already being done by industry in the area, and does not view this work as being entirely in opposition to the incrementality principle.

Some committee members were concerned that in 1998/99, the corporation funded the work of 300 employees generally already working within the ministries of Forests and Environment, Lands and Parks. It was pointed out that the 1994 Forest Renewal Plan had stated that no FRBC money was to be used for general government revenues, and that independence would be a guiding investment principle of the corporation. Furthermore, the issue of whether appropriate controls were in place to ensure no duplication of effort between ministry and FRBC staff was raised.

FRBC takes the position that the principle of independence as contained in the Forest Renewal Plan has not been violated, in that funds flowing from FRBC to ministry staff have been

allocated specifically for forest renewal work purposes. FRBC witnesses did acknowledge that when the corporation was created in 1994, it was not envisioned that government would be funding the cost of any ministry staff to approve FRBC projects. However, in the corporation's early years of operation, a decision was taken to purchase the services of staff in the ministries of Forests and Environment, Lands and Parks to deliver FRBC services, because of those ministries' land stewardship responsibilities. It was also emphasized to the committee that the introduction of the Forest Practices Code in 1995 increased the need for FRBC to rely upon staff in ministries to review proposals and plans, and monitor work. Memoranda of Understanding were executed for the deliverable services, which included performance expectations and reporting mechanisms.

Finally, it was the testimony of FRBC witnesses that the more forest renewal work being funded by FRBC, the more work that is required in the ministries responsible for regulating that work. In any event, they submitted that in recent years ministry delivery of FRBC services has been decreasing in favour of more industry delivery.

Regional equity and sensitivity

Section 4 the *Forest Renewal Act* requires FRBC to develop and implement a program of expenditures to help renew the forest sector in a way that is "regionally equitable". Regional equity is determined by considering 10 factors, ranging from revenue contributed by a region, to investment productivity of a region. However, in the Auditor General's view the guidelines which have been developed around the principle of regional equity and sensitivity are too general to allow an assessment of whether it is being adhered to in the corporation's investment decisions. In addition, there is no mechanism to ensure that the criteria are used transparently.

Concerns were also expressed from within the committee regarding perceived regional inequities in FRBC's investment decisions. For example, the committee discussed differing training opportunities and assistance offered to displaced forest workers on the lower coast and in the interior regions of the province. In particular, New Forest Opportunities Ltd., a subsidiary of FRBC, provides employment opportunities only to displaced forest sector workers on the lower coast and Vancouver Island. This is achieved by New Forest Opportunities Ltd. acting as the employer of record for those working on FRBC land-based programs, such as in-stream work on watershed restoration, and silviculture activities.

Witnesses from FRBC advised the committee that New Forest Opportunities Ltd. arose out of the Jobs and Timber Accord, which addressed re-employment of displaced forest workers, first nations and other qualified forest workers on the lower coast and Vancouver Island in conjunction with a collective agreement with the International Woodworkers Association. However, because no agreement was reached with IWA regarding other regions of the province, New Forest Opportunities Ltd. is not able to assist workers in those regions. Instead, re-employment of forest sector workers in those regions is addressed by FRBC through other means. It was stressed to committee members that although the provincial government and IWA initially envisioned a province-wide re-employment program, objections arose from industry and the parties could not come to an agreement. During these discussions, FRBC had an oversight role, but was not a direct participant. It was also emphasized, in response to questions posed by some committee members, that no priority is placed on assisting unionized forest workers in any part of the province. For example, FRBC witnesses noted that 70 percent of participants in the Forest Worker Transition Program were non-unionized workers.

On a more general note, FRBC witnesses submitted that the corporation's board has chosen to take a broad view of regional equity, and does not regard it as a strictly "dollars in, dollars out" principle. Rather, regional equity is viewed as a principle that must address the particular needs of each region of the province. For example, while the forest worker transition program addressed the needs of primarily the south coast and Vancouver Island, investments in inventory

work have been higher in the northern regions of the province due to the special inventory needs that exist there.

FRBC's Chair and CEO informed the committee that some disagreement still exists between the corporation and the Auditor General's office regarding the definition of regional equity, and that further work with the Auditor General's office on this issue may be required. However, representatives of the Auditor General's office noted that the corporation itself needs to clarify the definition so that it is able to measure and report on it, and explain its rationale. It is not the role of the Auditor General's office to define investment principles.

First Nations participation

The *Forest Renewal Act* also directs FRBC to take into account the need to increase the participation of First Nations and aboriginal peoples in the forest economy. Your committee learned that in January 1996, the corporation developed a First Nations Strategy to guide investment decisions. Committee members were pleased to learn that the Auditor General found this principle to be sufficiently considered by the corporation in its investment decision-making process.

Major Investment Allocation Decisions: Analysis and Information-Sharing

The Auditor General recommends that:

- *FRBC should ensure that an appropriate level of analysis – one that includes financial, economic and social considerations – is conducted and the resulting information shared with the board for major investment allocation decisions*

Representatives of the Auditor General's office made the committee aware that in the past, the cost-benefit implications of proposed initiatives, programs and projects have not always received sufficient analysis prior to FRBC decision-making, and that board members have received little analysis to enable them to assess investment alternatives. These weaknesses were found to be present within both land-based and non-land-based programs.

Response to the Auditor General's concerns is still ongoing. The Chair and CEO of FRBC informed the committee that the board has engaged in much discussion about the level of analysis required to make investment decisions. In this regard, he noted that most board members come to their positions with much experience in the forest sector and familiarity with relevant issues, and have felt that they have enough knowledge to be able to make informed decisions. However, to meet the Auditor General's concerns FRBC is implementing investment analysis, and reviewing the business planning and reporting cycle to clarify information and analysis requirements for each stage of decision-making. The corporation's board is also currently reviewing the level of information and analysis it requires for investment allocation decisions, and is focusing on processes and tools such as the strategic plan, local level plans and measurable results.

Project Eligibility Criteria and Guidelines

The Auditor General recommends that:

- *FRBC should ensure that all of its programs have approval criteria and guidelines that, when applied, allow staff to compare the merits of one project over another. Guidelines should be updated to reflect the corporation's most current direction, and corporate priorities and principles should be provided in all program guidelines.*

In determining suitability of projects for FRBC funding, FRBC has also established eligibility criteria and related guidelines. Eligibility for projects within land-based programs is determined by looking to clear guidelines that contain a list of eligible activities. However, your committee was informed that non-land-based project approval guidelines were determined by the Auditor General to be too general, out of date and missing key new policy directives. An exception to this finding are investment decisions in the Value-Added business unit. That unit

conducts reviews of business plans for upcoming years with stakeholder groups such as the value-added advisory committee to the board, value-added associations and implementing partners. Return-on-investment and marketing investment evaluation templates have also been developed to assist in the assessment of proposals.

The Auditor General was also of the view that FRBC's strategic objectives and funding principles should be included in all guidelines.

Your committee was pleased to hear that planning guidelines for all of the corporation's investment areas have been updated to reflect strategic plan directions. Once the performance measurement system has been fully implemented, there are plans to review and revise guidelines for existing programs to ensure consistency with FRBC's strategic plan, and to allow for comparison of projects. Programs will also be audited to ensure that guidelines are consistent with the strategic plan, and to provide direction on corporate priorities.

Accountability: Performance Monitoring, Measurement and Reporting

Development of Accountability Framework, Performance Measures and Targets

The Auditor General recommends that:

- *FRBC should develop an accountability framework that allows it to meet its accountability responsibilities. The framework should encompass information in three areas: operational, financial and compliance performance*
- *Forest Renewal BC should continue to develop its performance measures and targets, including operational, financial and compliance measures, for both outputs and outcomes, and report them to the public once they are established*

Your committee learned that at the time of the audit FRBC had not determined the accountability framework it should use to report on its performance, nor had it finalized performance measures and targets developed under the "Corporate Performance Measures Project" commenced in 1998.

FRBC witnesses submitted that the accountability framework is being reviewed by the corporation, and the annual report template revised to address recommendations made by the Budget Process Review Panel, and to provide increased clarity and measurable targets. As well, work plans submitted to the committee indicate that progress is continuing toward complete implementation of the corporation's performance measurement system and the incorporation of outcome measures into annual reporting. Performance measures and targets have been linked to each objective contained in the 1999-2003 strategic plan, and targets have also been broken down on a regional basis, in consultation with regional staff and licensees. The work plan further indicates that by September 2001, annual reporting will be based on performance measures.

The Comptroller General pointed out that FRBC's current comptroller is a former director of the Internal Audit Branch, and therefore has much experience in the area of performance management system development. However, FRBC witnesses also expressed a willingness to have the new performance measures examined in more detail by representatives of the Auditor General's office.

Outputs Report

The Auditor General recommends that:

- *FRBC should review the purpose of the Output report and ensure that the document satisfies the corporation's information management and accountability needs. Once the corporation has finalized its strategic plan, any subsequent reporting should be clearly linked to its goals, objectives, performance measures and targets. In particular, information about jobs must be more specific, put into context, and linked to the corresponding strategic objective.*

An important conclusion of the audit was that project information collected through surveys by BC Stats (the central statistical agency of the province of British Columbia) in 1996/97 and 1997/98 to create an "Outputs report" for FRBC focused on immediate outputs, such as employment, rather than longer-term outputs and outcomes for the corporation. As a result, the corporation has been unable to determine the extent to which it is meeting strategic objectives.

The committee engaged FRBC witnesses in a discussion about the corporation's ability to report on its performance, and in particular its performance in the area of creating/maintaining sustainable forest jobs, as called for by the Jobs and Timber Accord.

In response to these concerns, the Chair and CEO advised that since the Auditor General's review the Jobs and Timber Accord Advocate's office has recognized that the job creation numbers originally put forward are no longer achievable, due to decreased availability of resources, and the job creation number is being adjusted downward. In any event, he submitted that FRBC has worked hard at being able to predict the additional volume of timber that will be available to create more sustainable forest jobs in the future. For example, the target for the next five years is to grow 25 million cubic metres of wood that, without FRBC work, would not be there. There is a recognition that continuity of forest sector jobs has been a challenge, and while the jobs may exist only as long as FRBC funding is available, the intention is to ensure continued availability of the funding to maintain jobs. In this regard, FRBC witnesses submitted that initiatives undertaken by New Forest Opportunities Ltd. have tried to address re-employment of forest sector workers, and noted that the corporation is able to measure and report actual numbers of individuals assisted by the program, and how long they work. For example, in its first year of operation New Forest Opportunities Ltd. provided approximately 3,000 job placements to about 1,200 to 1,500 individuals.

In other parts of the province outside the lower coast, the corporation is working with its partners on job creation objectives, and FRBC witnesses testified that the corporation is able to report jobs created by using coefficients based on investment dollars. In this regard, the committee received a copy of a February 2000 FRBC document entitled "Forest Renewal BC Employment Impacts – Estimation and Reporting Procedures". That document summarizes the methodology and coefficients used by the corporation to generate employment figures regarding direct and indirect job creation. It indicates that while FRBC has tracked direct, short-term employment impacts of its investments since its early years (measured in terms of "person years" of employment created), it is still in the process of developing measures to track longer-term, downstream employment, as well as indirect and induced employment created as a result of its investments. The corporation also tracks the distribution of short-term, direct employment impacts in a number of social and demographic groups, such as first nations, displaced forest workers and youth.

It was further noted by FRBC's Chair and CEO that the corporation has been able to ascertain, by way of a survey done in the fall of 1999, that 80 percent of those participating in the Forest Worker Transition Program had found new employment at as high, or higher, levels of income than they previously had. Furthermore, 90 percent of those surveyed responded that they had found the program to have been a benefit to them. The Forest Worker Transition Program

ended on March 31, 2000, and has been replaced with another program which assists with re-employment by aiming to remove any barriers to re-employment that may exist, such as skills upgrading and relocation. However, the corporation plans to conduct a follow-up review of its success later in the year.

Finally, FRBC representatives reported to the committee that the corporation has the ability to measure and report the amount of money spent to help new companies get started, and how many direct and indirect jobs that has created. In the broad value-added sector, FRBC invests about $22 million per year in training, technology transfer and outreach, as well as marketing programs aimed at expanding marketing opportunities for B.C. wood products and value-added wood products. With funding providing for marketing activities, the corporation is able to measure the amount of dollar increase in product sales, and broadly relate that back to employment that may have been stimulated in the value-added industry. FRBC also tracks training and technology transfer investments to determine whether or not new employment was created, or new operations initiated.

Investment Management System

The Auditor General recommends that:

- *Once fully operational, FRBC should assess the Investment Management System to ensure that it meets the corporation's information management and accountability needs*

FRBC has developed a new Investment Management System ("IMS"), which integrates financial and operational information (both actual and projected). It is expected that the new system will enhance the corporation's ability to monitor and report its progress, as the system has the ability to track and report outputs and investments according to each business activity, and to measure progress in achieving strategic objectives. Agreement holders are expected to submit information to the corporation within 30 days following the end of each quarter, and FRBC investment officers regularly track performance indicators and analyze them on a quarterly basis. That information is normally reported by staff to those at the senior management/executive level of the corporation within approximately 60 days following receipt of information from agreement holders. Information then goes to the corporation's board of directors at the first board meeting after each quarter.

In the future, the corporation plans to develop an information management strategy to link various levels of performance measurements, and will do a review of IMS after all performance measures have been developed and input into the database.

Internal Audit

The Auditor General recommends that:

- *FRBC should establish a current and formally approved audit plan for the corporation, and the progress of the plan should be monitored and reported to the Audit Committee*

Although the Internal Audit Branch of the Office of the Comptroller General drafted a 5-year audit plan for the corporation in September 1996, and some audits have been undertaken, at the time of the Auditor General's review the plan was still in draft form and had not been formally accepted by FRBC.

Your committee was pleased to hear that, since the release of the Auditor General's report, FRBC's internal audit program has been implemented, and an audit plan for the corporation was approved by the audit committee. At the time the committee met to discuss the issue, there was a review of the corporation's contract management system underway, and value-for-money audits were also being conducted. The audit committee meets no less than quarterly and, while their primary focus is on the overall audit plan which they approve each year, they also see reports on performance measures.

Evaluation Plan

The Auditor General recommends that:

- *Forest Renewal BC should enhance its current evaluation plan to include a detailed work plan with proposed evaluations that are clearly linked to the corporation's strategic objectives and accountability needs. Management should monitor and report on the progress of this work plan to its board*
- *Forest Renewal BC should ensure that the secondary impacts of its programs are included in its evaluation plan*

A key finding of the audit was that, although a corporate evaluation plan had been developed in the fall of 1996, and revised in 1997, it was lacking in detail and did not consider the secondary impacts of FRBC programs (such as elimination or reallocation of funding from other organizations).

Since the time of the audit, FRBC has put an evaluation plan in place that includes corporate performance measures, program evaluation plans, program reviews and evaluations, training and communications. The 2000-01 plan is being revised and updated to link with the audit plan and performance measures work. FRBC has also stated its intention to incorporate the secondary impacts of proposed new programs, or major program modifications, into the evaluation framework for each program.

Measuring Compliance with Funding Principles

The Auditor General recommends that:

- *As it has with its First Nations participation principle, Forest Renewal BC should measure the extent to which the corporation is meeting the requirements of its funding principles – incrementality, regional equity and wise spending – and report this information fully to the board and the public*

The committee received evidence that there has been insufficient data collected in FRBC's information systems to enable it to determine to what extent the incrementality, regional equity and wise spending principles are being adhered to. Therefore, this type of performance information has not been fully reported to the board and to the public.

Since the audit was conducted, FRBC's nine funding principles have been included in the corporation's strategic objectives and corporate commitments. Corporation representatives advised your committee that the new performance measurement system will track data relating to these principles, and outcome measures will be included in the corporation's annual reports.

Performance Reporting

The Auditor General recommends that:

- *Forest Renewal BC should ensure that its annual report is produced within 6 months of the fiscal year-end*
- *Forest Renewal BC should enhance the contents of its annual report to provide performance information as described in the joint report on accountability produced by the Deputy Ministers' Council and the Office of the Auditor General, and in the Deputy Ministers' Council 1997 report "Guidelines for Ministry Annual Reporting"*

Section 10 of the *Forest Renewal Act* requires FRBC to prepare and submit to the Minister of Forests "as soon as is practicable after the end of the fiscal year" an annual report, which must then be tabled in the Legislative Assembly. However, the Auditor General expressed concerns to your committee about the lack of an accountability framework to guide the corporation in its performance reporting, as well as concerns about the timeliness and content of the corporation's annual reports. For example, FRBC's annual reports have most often been submitted 12 months or more following the end of the fiscal year. Moreover, committee members learned that information contained in annual reports has been weak in the following areas:

- Performance information, including main performance indicators, strategic objectives and information that would allow a comparison of performance with targets and performance from previous years
- Summaries of financial information, broken down on a per-program basis
- Information about the Jobs and Timber Accord
- Information specifically directed at the Legislative Assembly (i.e.) discussion of funding principles' application

FRBC witnesses submitted that the timeliness of annual reporting is being addressed by the corporation. While the corporation's 1998-99 annual report was tabled in late April 2000, committee members have been advised that the 1999-00 annual report is expected to be released in early October of 2000. Review of the annual report's content is underway, and there are plans to follow up with the Auditor General to ensure that concerns identified by his office have been addressed, and to consult with the Crown Corporations Secretariat to address certain recommendations made by the Budget Process Review Panel. That panel called for legislation requiring all ministries and public bodies in the government reporting entity to publish annual 3-year business plans and annual reports focusing on accountability for results.

Particular interest was noted during the committee's deliberations about the fact that FRBC's annual report does not contain accountability information relating to Orders-in-Council from government to the corporation, particularly Orders-in-Council with respect to FRBC activities as they relate to Skeena Cellulose, Empire Valley Ranch and Canadian Woodworks. The Auditor General's report had noted that identifying Orders-in-Council issued as direction to FRBC would enable readers of the corporation's annual report to better understand some of the direction government is providing to the corporation. Questions were posed to the corporation's Chair and CEO regarding the impact of Orders-in-Council on FRBC activities, and whether the corporation is consulted in the development of Orders-in-Council. The committee was advised that while board members bring their own personal perspectives to such issues, and may not always agree with the thrust of Orders-in-Council, in instances where government wishes to provide support for a particular enterprise or make a land acquisition it is a government decision rather than a decision of FRBC's board of directors. In this regard, section 4 of the *Forest Renewal Act* contains provisions requiring FRBC to comply with directions made by order of the Lieutenant-Governor-in-Council. It was also submitted to committee members that all such investments have fit within existing business plans, and have not required any alteration of FRBC activities, or extra staffing within the corporation.

CONCLUSION

The Chair and CEO of FRBC emphasized to the committee that there has been external support for work done by the corporation in its planning, and that the corporation has moved to a level of stability which enables it to know what it wishes to achieve at the end of the day. However, discussions are continuing between FRBC and the Auditor General regarding his recommendations. In particular, dialogue between the two offices is continuing in the following areas:

- Inclusion of social and resource targets in direction given to staff regarding investment allocation
- Conduct of appropriate level of financial, economic and social analyses prior to major investment allocation decisions

The committee looks forward to receiving follow-up information on the status of the corporation's work in addressing the Auditor General's recommendations. That follow-up information is expected to be received by the committee at the end of October, 2000.

Your committee recommends that:

1. The Minister of Forests table Forest Renewal BC's annual business plan in the House on a more timely basis, and when the House is not sitting for the Minister of Forests to deposit a copy of the annual business plan with the Speaker of the Legislative Assembly, enabling the appropriate legislative committee to begin its review.
2. Forest Renewal BC ensure that its annual report contains accountability information relating to Orders-In-Council that have resulted in courses of action or expenditures not identified in the corporation's business plan.
3. Forest Renewal BC implement the 19 recommendations relating to planning and accountability contained in the Auditor General's 6th report for 1999/2000, *Forest Renewal BC: Planning and Accountability in the Corporation; The Silviculture Programs*

PART II - SILVICULTURE PROGRAMS

INTRODUCTION

Silviculture has been defined by the Ministry of Forests as the art and science of controlling and manipulating the establishment, growth, composition, health and quality of forests and woodlands to meet the diverse needs and values of society on a sustained basis. There are two types of silviculture. Basic silviculture includes activities to aid in establishment of a free-growing crop of trees, such as site preparation, planting and brushing (an activity designed to get rid of or reduce the growth of non-commercially valued vegetation). Incremental, or enhanced, silviculture includes activities to maintain or increase the yield and value of timber, such as site rehabilitation, pruning, spacing and fertilization.

Part of the mandate of Forest Renewal BC ("FRBC"), as contained in the *Forest Renewal Act*, is to enhance the productive capacity of forest lands, and to create jobs. To carry out this mandate, the corporation has established two silviculture programs. Those programs are the Enhanced Forestry and the Backlog Silviculture programs, which together received approximately 27% of FRBC program expenditures in the fiscal year 1998/99 (over $400 million). FRBC does not fund basic silviculture activities, because they are already a legal requirement of forest licensees.

Activities funded through the Enhanced Forestry program include brushing, spacing, pruning and fertilizing. Other activities include forest health activities, silviculture studies, stand conversion and landing rehabilitation. Enhanced Forestry is one of FRBC's largest programs, with more than $326 million invested from 1994/95 to 1998/99.

Activities funded through the Backlog Silviculture program include removing brush and reforesting Crown land harvested or otherwise disturbed, but not satisfactorily restocked, since 1987. In 1987, the government introduced a legal obligation requiring licensees to restock harvested sites within a reasonable time. FRBC invested $109 million in this program over the period 1997/98 to 1998/99.

FRBC does not deliver the silviculture programs itself. Rather, the corporation has entered into agreements with industry proponents and the Ministry of Forests to deliver these services.

THE AUDITOR GENERAL'S REVIEW

The Scope of the Audit

In 1998, the Office of the Auditor General conducted an audit of FRBC's silviculture programs, to determine whether the corporation has been spending wisely on these programs. The audit also assessed whether the corporation has the information and tools it needs to support its investment decisions, and the extent to which it has identified how its silviculture programs are contributing to the achievement of its resource, economic and social objectives.

The results of the audit were reported in November of 1999 in the Auditor General's 6th report for 1999/2000, entitled "Forest Renewal BC: Planning and Accountability in the Corporation; The Silviculture Programs". The planning and accountability portion of the audit is discussed in Part I of this report.

The audit revealed that while some initiatives were underway within FRBC at the time of the audit, the corporation had much work yet to do in terms of its investment planning processes. In particular, the Auditor General found that:

- FRBC silviculture program investments had been carried out in the absence of an overall provincial strategy
- FRBC's objectives for its silviculture programs were not clear
- While extensive information about the potential benefits of enhanced forestry activities was available, there was continuing debate in the forest sector about how effective some of those activities are
- FRBC's spending targets for its silviculture programs were generally met, but without specific objectives it was not clear whether the right level and mix of activities had been funded
- Job-creation targets were limited to the short-term
- There were risks that costs will be higher than they have historically been when silviculture programs were delivered primarily by the Ministry of Forests and industry
- While contract administration was generally adequate, contracts did not define FRBC's quality expectations
- Some assessments were being carried out, but not to the extent required to adequately measure and report on the effects of the silviculture programs

The Auditor General made 21 recommendations to FRBC, aimed at improving processes to enable the corporation to demonstrate that it is spending wisely on its silviculture programs.

The Auditor General provided your committee with a breakdown of the costs involved in conducting the silviculture programs audit. The document provided to the committee indicates that the total cost of the audit was $165,158.62, including publication, consultant and travel costs, and the audit team spent 3,130.5 hours engaged in work relating to the audit.

THE COMMITTEE'S REVIEW

The committee met in February 2000 to consider the results and recommendations arising from the audit. At that time, committee members heard testimony from representatives of the Auditor General's office, Forest Renewal BC and the Ministry of Forests. The committee was advised that five of the Auditor General's recommendations relating to silviculture programs have been implemented by the corporation, and the remaining are expected to be implemented over the course of the next two years.

During the committee's deliberations, some concerns were raised about the fact that the Auditor General's report did not include a comprehensive analysis of the performance of FRBC's silviculture programs in terms of environmental and social values.

FRBC witnesses also commented on this issue, noting that while silviculture activities are directly linked to resource investments, there are definitely social and environmental benefits that result from silviculture activities funded by the corporation. Those benefits include First Nations' participation and capacity-building, and increased wildlife habitat. It was also noted that the corporation's ability to incorporate environmental values into silviculture activities is growing. For example, the committee learned that the corporation has created models that help determine the impacts of harvesting on habitat, and that they are used when silviculture investment decisions are made.

Representatives of the Auditor General's office acknowledged that environmental and social values were not the focus of the report. They noted that FRBC's watershed restoration program does focus on enhancing environmental values, but that because FRBC had already hired a consultant to evaluate that program when the Auditor General's office was contemplating the audit, they chose instead to focus the audit on the silviculture programs.

In addition, some committee members were troubled by the fact that the Auditor General's report contains evidence updated only to December 1998. FRBC witnesses emphasized to the committee that much work has in fact taken place since the 1998 audit, and that the corporation's current silviculture program investment approach is closer to the vision contained in the Auditor General's report than any previous approach in British Columbia has been.

STRATEGIC DIRECTION

Provincial Strategy

The Auditor General recommends that:

- *A strategy similar to that identified as being required by the Forest Sector Strategy Committee in 1995 should be developed by integrating existing documents, and should be used as a basis to guide strategic requirements for incremental silviculture activities. Development of this strategy should be a coordinated initiative by the Ministry of Forests, Forest Renewal BC and industry*

The Auditor General has noted that numerous reports published in the 1990's have called for the need to develop a provincial forest management strategy, and to integrate a silviculture strategy into that overall plan. He has emphasized that such a strategy should be based on existing plans and proposals, and regional and sub-regional strategies. For example, his report states that strategies developed for timber supply areas and tree farm licences, and resource management plans (forest-level plans being developed by the Ministry of Forests that focus on identifying strategic silviculture program opportunities) may offer potential for a strategic approach.

At the time the audit was being conducted, FRBC was initiating discussions on the need for a provincial incremental silviculture strategy. Since that time, FRBC has provided funding for the first province-wide silviculture strategy, and in 1999 an "Incremental Silviculture Strategy for British Columbia" prepared by the chief forester for the province was released by the Ministry of Forests. Therefore, FRBC considers the Auditor General's recommendation on this issue to have been fully implemented.

Some committee members made queries regarding why a more comprehensive discussion of the "Incremental Silviculture Strategy for British Columbia" was not incorporated into the Auditor General's report. Representatives of the Auditor General's office stated that because the document was not made available to them until May 1999, it was too late to include a discussion of it in the report. Moreover, the document released to the Auditor General's office in May 1999 was considered an internal draft only, and not a public document.

The new silviculture strategy sets out broad goals and silviculture strategies, and provides a framework and direction for policy and decisions regarding incremental silviculture. The silviculture strategy also relates to the corporation's 1999-2003 strategic plan and, in particular, the strategic objective of sustainable harvest. That strategic objective involves increasing, as a result of FRBC-funded silviculture activities, the volume of timber available for harvest by 25 million cubic metres over 5 years (1999-2003). In response to questions from the committee, FRBC witnesses advised that this objective was set in close consultation with the chief forester for the province and his staff. Committee members also learned that, as part of the strategy of increasing the volume of timber available for harvest, FRBC is focusing on core silviculture investments (enhanced silviculture, tree improvement and research, and backlog reforestation). It is also phasing out its involvement in forest health activities in mature stands, and road and bridge maintenance/construction activities.

Committee members were also pleased to learn that since the 1998 audit was conducted, local silviculture strategies at the management unit level (timber supply area or forest district) have been under development. Those strategies identify the nature and location of local silviculture needs. At the time of the committee's deliberations, approximately 40 percent of local strategies had been completed, with a target date of 100% completion in 2001.

The committee was interested to hear that the corporation's silviculture program investment decisions are linked to the silviculture strategies, and are made using a bottom-up process. The process involves an identification of local investment opportunities by staff and stakeholders, and an analysis of different regional investment scenarios in terms of resource, economic and

social benefits. In conducting this analysis, FRBC staff look at the unique nature of silviculture needs in different areas, the impact of different investment options on factors such as long and short-term employment, AAC and unit costs, and any information gaps that may exist. These gaps exist due to inconsistent information-collection efforts throughout the province regarding factors such as vegetation, wildlife and timber supply. Regional investments are then reviewed by staff at FRBC's Victoria office to assess their contribution to the strategic objective of sustainable harvest. Regional investments are also reviewed for contribution to the four corporate commitments contained in FRBC's strategic plan (regional equity, First Nations participation, stakeholder representation and employment creation).

IDENTIFICATION OF OBJECTIVES

The Auditor General's report notes that to be effective, all programs need clearly defined long-term and short-term goals and objectives. However, when the 1998 audit was carried out, it was determined that such goals and objectives were not identified or well-defined in FRBC's 1998/99 business plan. In addition, the corporation had not explained the magnitude or timing of the benefits it expected to derive from its programs. For example, it did not provide quantitative information about intended outcomes, and the Auditor General was of the view that some information provided may have contributed to a lack of public understanding about the real benefits and limitations of silviculture programs (i.e. information describing the benefits of spacing activities).

Identification of Resource Objectives

The Auditor General recommends that:

- *Forest Renewal BC should identify its resource objectives in terms of expected outcomes, to show clearly what it projects the future resource benefits from these investments are likely to be*

The Forest Renewal Act provides that part of FRBC's mandate is to enhance the productive capacity of forest lands. However, the audit concluded that resource objectives have not been well-defined or quantified for each FRBC region. The Auditor General's report calls upon FRBC to identify such objectives, to enable it to demonstrate projected future resource benefits to be realized from silviculture program investments.

The committee was informed that the Auditor General's recommendation on this issue is in progress. FRBC witnesses submitted that while, in their view, the Incremental Silviculture Strategy released in 1999 addresses the Auditor General's concerns, work is also continuing to complete local level silviculture strategies. FRBC plans to maintain a dialogue with the Auditor General's office as these plans are completed, to ensure that the intent of the recommendation is being addressed.

Identification of Economic and Financial Objectives

The Auditor General recommends that:

- *Forest Renewal BC should identify its financial and economic objectives for the silviculture programs*

Committee members were also informed that, despite concerns voiced by members of the Select Standing Committee on Forests, Energy, Mines and Petroleum Resources, FRBC had not carried out an economic analysis of its silviculture investments, or set related financial and economic objectives in its 1998/99 business plan. Much concern was expressed about this during your committee's deliberation on this topic.

FRBC is of the view that performance measures developed for silviculture activities meet the Auditor General's concerns in part. In particular, they advised the objective of increasing timber volume available for harvest by 25 million cubic metres over the period 1999-2003 is an objective against which progress will be assessed, using measures such as volume increase in treatment area, and increase in economic value of individual stands. However, they did acknowledge that currently there are limits to financial analysis models, particularly as they relate to long-term financial and economic impacts of silviculture activities, and more work will be required in this area.

In response to queries from the committee about why the corporation did not undertake work to address these concerns on a more timely basis, FRBC witnesses submitted that inventory information and tools enabling this kind of work have not been available until more recent years. They also noted that the comments and concerns of members of the Select Standing Committee on Forests, Energy, Mines and Petroleum Resources were indeed taken into account

by FRBC as it went about taking over silviculture programs formerly the responsibility of other agencies.

Short-term and Long-term Job Creation Objectives

The Auditor General recommends that:

- *Forest Renewal BC should ensure that its social objectives identify both short-term job creation and long-term job creation in the harvesting and processing sectors*

Representatives of the Auditor General's office told the committee that output targets in the 1998/99 business plan related to job creation were found to be overstated by approximately 20%. Also, job creation targets focused on short-term jobs, and did not identify long-term employment expectations from current silviculture programs, nor did they define "sustainable jobs" or specify what the objectives were in terms of traditional forestry jobs in the harvesting and processing sectors.

Committee members heard that, in FRBC's view, the Auditor General's recommendation on this issue has been substantially implemented. The corporation is able to report information on short-term jobs created through silviculture program investments. FRBC representatives also submitted that the 25 million cubic metre target in the corporation's 1999-2003 strategic plan addresses long-term job creation potential in the harvesting and processing sectors, and that long-term job creation estimates are being developed based on information provided by Statistics Canada and PricewaterhouseCoopers.

Committee members also discussed a statement in the Auditor General's report that, in his view, jobs funded through FRBC's silviculture programs are not sustainable except, perhaps, with FRBC funding. The Chair and CEO of FRBC expressed his agreement with the Auditor General's conclusion that short-term job creation is being supported by FRBC funding. However, he noted that that was not unintentional, as it is the only way FRBC is able to measure the effect of the jobs it is creating. He also emphasized that FRBC's preference would be to create a culture of "multi-skilled" workers in the forest sector, who have the ability to follow work through the long-term, from planting to harvesting. He submitted that some progress has been made in this regard through New Forest Opportunities Ltd.

Balancing Social and Resource Objectives

The Auditor General recommends that:

- *Forest Renewal BC should clearly define the extent to which it wants its funds to focus on social objectives and the extent to which it wants them to focus on resource objectives*

The Auditor General's report notes that although FRBC and the Ministry of Forests have tried to clarify their respective responsibilities (FRBC focusing on social objectives and the ministry focusing on resource objectives), no guidance has been available to assist the ministry and industry in balancing these objectives as they deliver FRBC silviculture programs.

In their testimony to the committee, FRBC representatives submitted that the Auditor General's concerns on this topic have been addressed through incorporation into the 2001-01 business plan of investment planning principles that establish priorities regarding resource and social objectives. For example, one principle states that FRBC investments will be allocated based on their potential to contribute to strategic objectives and their cost, and that all other considerations are of secondary importance.

INFORMATION-GATHERING TO SUPPORT INVESTMENT DECISIONS

Addressing Strategic-Level Enhanced Forestry Research Needs

The Auditor General recommends that:

- *Forest Renewal BC should ensure that strategic-level enhanced forestry research needs are addressed in its planning of research programs. In addition, it should work with the Forest Productivity Council to identify growth and yield information needs and provide the funding needed to ensure that such information is being adequately collected for management stands*

The committee discussed the fact that, while there is extensive information about silviculture treatments and their effects, some gaps still remain and debate continues within the forest sector about the efficacy of some of those treatments in terms of increasing the volume of timber. For example, the chief forester for the province has determined that some silviculture activities have had little or no impact on allowable annual cut in certain timber supply areas around the province. Companies with tree farm licences have also questioned the efficacy of some silviculture activities, particularly spacing and pruning. As well, various factors such as site quality and species may impact the efficacy of enhanced forestry activities.

However, the Auditor General's report notes that because growth and yield in managed stands is not sufficiently monitored by FRBC, it does not have enough information about the benefits of silviculture treatments, and more research is required in this area. Furthermore, the Auditor General's report notes that for the years 1996/97 and 1997/98, approximately $86 million was spent on silviculture activities that will not have a major effect on increasing total timber volume (although spacing activities can make the existing volume available sooner).

FRBC representatives noted that the debate about the efficacy of silviculture treatments is by no means unique to British Columbia. Such a debate also exists in jurisdictions that are generally considered to be leaders in silviculture practices, such as Sweden, New Zealand, Finland and parts of the United States. Nevertheless, those countries still choose to practice incremental silviculture and apply the kinds of treatments FRBC has been funding, and it is generally recognized that there is need to do that work.

Committee members were advised that FRBC is working toward addressing the Auditor General's concerns in this area. The Forest Productivity Council advises FRBC on research needs and priorities, and the FRBC board has made a commitment to maintain funding to improve information on growth and yield. As well, documents submitted to the committee indicate that FRBC is providing financial support to the Council of Forest Research Agencies, which is developing a forest sector research strategy for British Columbia.

Using Available Information in Enhanced Forestry Program Investment Decisions

The Auditor General recommends that:

- *Forest Renewal BC should use the available information to a greater extent in making decisions about its investment level for various activities in the Enhanced Forestry Program*

The Auditor General's report states that FRBC should use information obtained from research to a greater extent in its enhanced forestry investment decisions.

The committee was informed that response to this recommendation is in progress. Local silviculture strategies, once completed for the whole province, are expected to incorporate the best available information coming out of research initiatives. Moreover, the committee was interested to hear from FRBC witnesses that the corporation's information system collects data on the relative impact of different silviculture investments. It is expected that the system will soon be able to rank silviculture activities in terms of their impact on timber supply, and what benefits those activities will generate at certain levels of investment.

DIRECTION REGARDING WORK BEING FUNDED BY FRBC

The Auditor General has noted that because FRBC has not provided direction to proponents about its resource and economic objectives, but instead has focused primarily on identification of spending and job targets, the corporation is unable to assess whether the activities it funds in the silviculture programs are meeting expectations.

Financial, Economic and Resource Quality Criteria

The Auditor General recommends that:

- *Forest Renewal BC should identify the financial, economic and resource quality criteria it expects proponents to apply when they are considering potential projects for their work plans*

Committee members learned that guidance given to proponents in developing their work plans has included general approval criteria, but has not provided enough direction regarding resource quality and financial/economic targets. However, the previous process that existed prior to introduction of FRBC's new land-based delivery system involved an assessment of each project against ranking criteria, to produce a numerical weighting for the project.

FRBC witnesses noted that actions responding to the Auditor General's recommendation on this topic are underway. In particular, as part of the development of local silviculture strategies, FRBC is conducting quantitative analysis of potential financial and resource benefits of investments at stand levels. Regional investment options are selected based on that analysis, although it was pointed out that long-term uncertainties (i.e. future market conditions) introduce inherent difficulties in estimating the potential benefits of silviculture investments.

The committee also received documents indicating that "Sustainable Harvest Resource Management Plan Guidelines" exist to provide the direction recommended by the Auditor General. Those guidelines contain information relating to eligibility for investment, criteria for ranking investments, guidelines for unit cost ceilings, and scope for applying professional judgement.

Understanding Regional Needs

The Auditor General recommends that:

- *Forest Renewal BC should base future allocations of funds for silviculture programs on an understanding of the opportunities, resource strategies, and the unique timber supply situation within each region*

In 1998/99, FRBC allocated a base budget for each region for land-based programs, and directed them to allocate 45% to silviculture activities. However, the Auditor General and others have expressed concern that this target was set without sufficient consideration being given to regional differences. In this regard, the Auditor General's report points out that each forest region faces unique opportunities, resource strategies and timber supply situations. The committee also heard that funding direction has been given without any real understanding of or link to what the corporation wants to achieve. For example, the Auditor General's report notes that there have been concerns that spacing and pruning activities are not necessarily appropriate if the objective is to increase timber volume. This concern has also been expressed by members of the Select Standing Committee on Forests, Energy, Mines and Petroleum Resources during its review of the corporation's annual business plans.

Responding to these concerns, FRBC's Chair and CEO noted that the Forest Sector Strategy Advisory Committee, established in 1993, in fact recommended that approximately 50 percent of total allocation should be spent on silviculture activities. In this regard, British Columbia's Forest Renewal Plan, developed by the advisory committee in 1994, states at page seven that "while significant increases in silviculture investments have been made in recent years, more is required if we are to offset the projected decline in harvest and job levels". The plan further states that nearly half of forest renewal investments will go toward silviculture activities.

FRBC witnesses further submitted that the 45 percent target was put forward by the corporation as a guideline only, with the expectation that feedback would come in from the regions about its feasibility. It was also emphasized that FRBC picked up silviculture programs from other organizations, whose professional foresters have extensive knowledge about the value of various silviculture activities, and that FRBC has relied on that knowledge in setting silviculture program spending targets.

Committee members were advised that actions addressing the Auditor General's recommendation on this topic are underway. The corporation expects the recommendation to be implemented through the development of local silviculture strategies, which include resource objectives. Representatives of the Auditor General's office did acknowledge that FRBC has made much progress in attempting to set objectives. In this regard, they noted that funding of silviculture activities prior to FRBC's establishment (through two federal-provincial shared programs, which were in place from 1985 to 1990, and 1991 to 1995, respectively) was done without any real objectives that could be looked to for guidance by FRBC when it assumed responsibility for silviculture programs in the province.

Funding Forest Health Activities

The Auditor General recommends that:

- *Forest Renewal BC should ensure that its funding of forest health activities is based on an adequate assessment of provincial forest health requirements*

The committee discussed the Auditor General's conclusion that FRBC's funding of forest health studies and treatments has been inconsistent. In 1994, the Forest Sector Strategy Committee had identified forest health as an investment that can provide a substantial increase in volume for dollars invested. However, the Auditor General's report states that FRBC has not met its obligation to keep the forest healthy. As such, it has been recommended that FRBC ensure that funding of forest health activities is based on an adequate assessment of provincial forest health requirements.

FRBC witnesses advised that because the corporation's strategy is to focus on core silviculture areas, investments in forest health activities are generally viewed as outside the corporation's area of responsibility. Forest health investments are only to be made where they contribute to the corporation's other strategic objectives, such as sustainable harvest. These investments occur mainly in juvenile stands.

FRBC witnesses also emphasized that "forest health" can be viewed in terms of either individual healthy trees/groups of trees, or alternatively a broader, more holistic view that includes factors such as watershed and habitat health. FRBC's mandate relates to forest health in the broader sense.

Documents submitted to the committee by FRBC indicate that corporation representatives consider the Auditor General's recommendation related to forest health activity funding to be substantially implemented. However, this may be an area requiring more dialogue between FRBC and the Auditor General, as representatives of the Auditor General's office indicated to the committee that, in their view, the Forest Renewal Plan clearly directs the corporation to keep the forest healthy, and their audit determined that FRBC has not been carrying out this role. It was also noted that the draft provincial silviculture strategy reviewed while the audit report was being drafted listed two activities that should receive priority: fertilization and forest health initiatives. Finally, representatives of the Auditor General's office submitted that because FRBC has broadened its investment principles to allow it to undertake any activities it feels are appropriate to meet its mandate, it has the ability to decide whether to fund forest health activities, and to what extent.

Qualitative and Quantitative Value Analyses

The Auditor General recommends that:

- *Forest Renewal BC should ensure that its planning processes provide the corporation with qualitative and quantitative information about the potential value of the work it funds*

The Auditor General found several instances of work being funded to meet FRBC's objectives for job creation and equity, but with little attention paid to resource returns. His report emphasizes that the corporation must ensure that it has quantitative and qualitative information about the potential value of the work it is funding.

FRBC witnesses submitted that development of the local level silviculture strategies, to be completed in 2001, will address these concerns, as they will be based upon local timber supply goals and performance measures.

Responding to questions arising during the committee's deliberations regarding the need for quantitative analysis, FRBC witnesses submitted that while it is important to collect information about investment outcomes so that it can be used in the investment decision-making process, quantitative analysis must be balanced with qualitative or broader objectives. In this regard, the committee discussed the interaction between objectives, and was told that silviculture activities can contribute to more than one value. For example, it was noted that pruning activities can create new habitat for some species, while at the same time addressing the objective of growing more clear, higher-value wood.

FRBC representatives emphasized that silviculture investments on public lands should not be restricted to financial considerations, as this would make it difficult to integrate social and environmental objectives, such as values relating to wildlife habitat. The Chair and CEO of FRBC also argued that the uncertainty and cost involved in activities such as forecasting long-term jobs created by silviculture activities must be considered when deciding the value of such work. Therefore, while the corporation plans to continue improving its ability to conduct quantitative analysis, it does not anticipate making future silviculture investment decisions based entirely upon such analysis. Rather, it is expected that the Incremental Silviculture Strategy, which is based on the best information available when it was developed (1999), will continue to guide silviculture investment decisions.

In response to questions from the committee about the apparent difference of opinion on this issue between FRBC and the Auditor General, FRBC witnesses advised that this is part of a broader debate occurring across the forest sector, and that more discussion with representatives of the Auditor General's office will be required in this area.

Backlog Silviculture Program Funding Scenarios

The Auditor General recommends that:

- *Forest Renewal BC should more thoroughly analyze the implications of different funding scenarios for the Backlog Program*

In 1996, FRBC took over responsibility for reforesting backlog lands from the Ministry of Forests, when the corporation's board approved a $250 million program to extend over 10 years. The Ministry of Forests was to continue the maintenance of backlog sites already replanted, and to reduce its funding of backlog gradually over the 10-year period. However, the Auditor General's report notes that in 1998/99, the Ministry of Forests in fact provided no backlog funding. The Auditor General has expressed concern that FRBC now has responsibility for a program on a scale that was never intended, but despite this has not reviewed its backlog strategy or alternative funding models for the program.

In this regard, the committee learned that FRBC has established more rigorous, specific investment criteria guidelines for backlog activities, and has plans to assess the success of those guidelines in the fall of 2000. It was also emphasized that because of the different impacts

backlog activities have on different timber supply areas, assessments will also occur as part of the process of developing local silviculture strategies.

Balancing Short-term and Long-term Job Creation

The Auditor General recommends that:

- *Forest Renewal BC should ensure that it obtains information about the extent to which the activities it funds are creating conditions for maintaining and creating future jobs in the harvesting and processing sectors*

Representatives of the Auditor General's office noted that FRBC has not given clear direction to regions regarding the relative importance of providing short-term jobs versus maintaining the resource's capacity to provide sustainable, long-term jobs. As such, it has been recommended that FRBC ensure it obtains information about the extent to which activities it funds are creating conditions for maintaining and creating future jobs in the harvesting and processing sectors.

As discussed above in this report in the section relating to "Short-term and Long-term Job Creation Objectives", FRBC representatives view this recommendation as substantially completed as a result of work being done to estimate direct, indirect and induced employment over both the short-term and the long-term.

THE COST OF PURCHASING SERVICES

The delivery of silviculture programs funded by FRBC is done by the forest industry and the Ministry of Forests. Part of the audit involved an examination of whether FRBC was paying the least cost possible in purchasing contract services for its silviculture programs. Because incremental silviculture programs were funded by the Ministry of Forests and the forest industry prior to FRBC taking over responsibility for this function, the audit team looked at their historical cost databases in order to determine whether FRBC has been paying more or less for the same silviculture services. It was determined that FRBC's cost management system carries a greater risk of higher costs being accepted than did the system used by the Ministry of Forests when it had responsibility for silviculture activities. As such, the Auditor General has recommended that the corporation determine how it will obtain assurances it is receiving value-for-money from proponents, and provide clearer direction on the level of costs it is willing to accept to meet its social objectives.

Value-for-Money Assurances

The Auditor General recommends that:

- *Forest Renewal BC should determine how it will obtain assurance that monies expended by proponents provide value-for-money*

It was determined in the course of the Auditor General's review that FRBC does not conduct value-for-money audits of proponents. Therefore, the corporation cannot be assured that it is getting value for the money it is spending.

Furthermore, the Auditor General's report states that when FRBC project officers review information during planning processes, they have access to historical cost information from the Ministry of Forests so that they can assess the reasonableness of costs put forward by proponents. However, because licensees are no longer required to provide cost information when reporting to the ministry on work completed with FRBC funding, information about costs and trends may not be accessible for future reference.

The Auditor General's concerns have been partially addressed by FRBC, and work is continuing. In particular, the costs of individual silviculture activities are now included in workplans prior to approval by FRBC investment officers, and are monitored by FRBC staff as plans are implemented. All information is available in FRBC's Investment Management System database.

Committee members also learned that since the time of the audit, FRBC has expanded its audit program, and during 1999/00 conducted 14 pilot project performance audits. In the future, the corporation plans to ensure that each multi-year agreement is subject to a value-for-money audit. In addition, FRBC witnesses made the committee aware that an internal management-level audit has been underway to determine if the right contract management controls are in place.

When asked whether the corporation has any intention of reviewing the results of the 14 pilot project audits with the Auditor General's office, FRBC representatives advised the committee that the approach taken in those audits will be discussed with the Auditor General as part of the ongoing dialogue between the two offices.

Level of Acceptable Costs

The Auditor General recommends that:

- *Forest Renewal BC should provide clearer direction as to the level of costs it is willing to accept to meet its social objectives*

The *Forest Renewal Act* sets out social objectives for FRBC. For example, it requires the corporation to take into account the need for increased participation of First Nations and aboriginal persons in the forest economy. Multi-year agreements have a provision recognizing that, in order to further this objective, partnerships may be established employing workers who may not otherwise be considered to have the skills and qualifications required to conduct silviculture activities. During the course of the audit, the audit team received information indicating that partnerships often require higher administrative costs in the early stages of work, and may also initially involve lower productivity due to the use of workers new to the field.

As well, higher delivery costs for work funded through New Forest Opportunities Ltd. has been a concern. When the audit was conducted, the subsidiary was only a few months old, however a number of the bids it had received were said by proponents to be 30 to 50 percent higher than historical levels. Furthermore, New Forest Opportunities Ltd. management told the audit team that its costs were 14 to 15 percent higher than expected after only three months of fieldwork.

The audit team concluded that FRBC had not identified the extent to which proponents should accept higher costs in partnership arrangements, and in work conducted through New Forest Opportunities Ltd.

The committee was very concerned about the Auditor General's conclusions on this topic, and discussed steps the corporation is taking to determine what costs it is willing to accept to meet its social objectives. It was noted that cost guidelines developed by the Ministry of Forests have generally been based upon marketplace low bid for each region. Nevertheless, the committee was made aware that FRBC work to implement this recommendation is in progress. The Chair and CEO of FRBC advised that the corporation has set a target that costs should not be higher than historical costs, except for factors beyond the control of the proponent. These factors may include terrain slope, stand density, natural environment complexities and FRBC staff have been tracking those since early 2000. Time of year work is conducted, overtime paid, and competitive conditions, all of which can affect costs, were not directly examined during the audit.

Committee members also heard that FRBC investment officers review unit costs prior to workplan approval. As reports are submitted to the investment officers, unit costs are monitored to determine if they are within an acceptable range.

Finally, FRBC has recently completed an analysis of silviculture unit costs since the corporation assumed responsibility for funding silviculture programs. Generally, costs have been found to be within the range of historical costs. However, an audit of New Forest Opportunities Ltd.'s silviculture costs for 1998 and 1999 (up to fall 1999) indicated that costs in its first year of operation were indeed approximately 35 percent higher than historical costs. Although the cost increases have not been conclusively quantified, some work has been done indicating that higher costs were linked to the remote location where most of the funded work was carried out, and to establishment of a collective agreement.

The committee was assured that wherever variances from historical costs have been identified, FRBC staff are managing those.

CONTRACT MANAGEMENT

Quality of Resource Benefits

The Auditor General recommends that:

- *Forest Renewal should ensure that it has information about the quality of the resource benefits it is purchasing. Acceptable limits should be incorporated into the agreements so they become contractual obligations*

The committee discussed the Auditor General's conclusion that contracts between FRBC and proponents have not contained specific performance objectives relating to the silviculture programs, or expected outcomes of investments in various silviculture activities (i.e. whether treatments are intended to increase volume, alleviate repression, adjust stand densities or tree sizes, or achieve social forestry objectives).

Further, the quality of a site is important when making silviculture activity decisions, because potential benefits from treatments such as spacing, pruning and fertilizing may not be realized if a site's quality is inadequate. While the audit determined that FRBC has taken steps to ensure that its staff have experience and training in the area of contract management, it was also found that contracts did not require identification of a level of site quality acceptable to FRBC prior to work being carried out. As a result, the corporation has been unable to ensure that silviculture work is focused on areas where resource benefits would warrant the costs involved in conducting the work. The Auditor General has suggested incorporating acceptable limits in agreements, creating a contractual obligation regarding the quality of resource benefits.

FRBC's response to the Auditor General's findings in this area is in progress. Under the corporation's investment agency model, it relies on proponents and the Forest Service to select appropriate sites for silviculture activities, based on the local level silviculture strategies being developed. Quality of resource benefits is being addressed under this arrangement, in that Forest Service district managers approve stand management prescriptions for each site that will receive silviculture treatment. However, there are also plans to develop, under FRBC's services agreement with the Ministry of Forests, guidelines relating to minimum site quality conditions for various types of investments. FRBC will also continue to consult with ministries, industry and professionals regarding standards and plans being developed.

Quality Assurance Review Process

The Auditor General recommends that:

- *Forest Renewal BC should assess the level of assurance it needs, and ensure that the Ministry of Forests' quality assurance review process has the resources to meet that requirement*

Pursuant to a services agreement with FRBC, the Ministry of Forests does quality assurance inspections of 10 percent of the silviculture work funded by FRBC, which is the ministry's historical level of inspection. However, the Auditor General has suggested that FRBC needs to ensure that this level of inspection meets its needs for quality assurance information.

Committee members heard that FRBC plans to analyze the results of the 14 pilot project performance audits discussed above, to determine whether there is a need to change the present level of quality assurance work being conducted.

MONITORING OUTPUTS, SHORT-TERM IMPACTS AND LONG-TERM OUTCOMES

The 1998 audit also examined whether FRBC has had information systems in place to enable it to determine what is being accomplished through its silviculture programs.

Monitoring Impacts of Enhanced Forestry Activities

The Auditor General recommends that:

- *Forest Renewal BC should work with Ministry of Forests and industry to identify monitoring needs and implement an appropriate program so that the impacts of its funded activities are identified*

The Auditor General's report notes that the corporation needs to work with the Ministry of Forests to conduct further monitoring to ensure there is adequate information available regarding the short-term impacts of enhanced forestry activities. In his view, FRBC also needs to establish a system for monitoring and evaluating the long-term impacts of the enhanced forestry activities it funds, tied into a larger forest management strategy.

Committee members were advised that response to this recommendation is in a preliminary stage. FRBC witnesses did note, however, that the corporation has accepted the Auditor General's recommendation, and is discussing possible actions with industry and the ministry.

Enhanced Forestry Evaluation Plan

The Auditor General recommends that:

- *Forest Renewal BC should reassess the evaluation needs of the Enhanced Forestry Program to ensure the corporation will be able to identify the actual outcomes of the program it funds, and relate these quantitatively to the forest level outcomes*

In 1996, FRBC prepared an evaluation plan to assess the outcomes of its enhanced forestry program. However, at the time of the audit that plan had not been updated to reflect the fact that the corporation now funds on the basis of long-term plans, rather than site specific proposals as was previously the case. As such, the Auditor General has recommended that the evaluation needs of the enhanced forestry program be reassessed to ensure the corporation is able to identify actual outcomes of the program, and relate them quantitatively to forest-level outcomes.

The committee learned that FRBC has accepted this recommendation, and plans to assess evaluation needs of the program as part of the 2000-01 corporate evaluation plan. As well, there are plans to continue to develop coefficients relating to actual outcomes of silviculture activities.

Job Creation Reporting

The Auditor General recommends that:

- *Forest Renewal BC should ensure that its reporting on job creation puts the short-term job creation into proper context and identifies the effect of its programs on the silviculture community and future harvesting and processing jobs*

The audit revealed that FRBC's reporting on the social objective of job creation has not been put into context, in that it has not identified the extent to which it has created additional jobs beyond those provided under silviculture programs before the corporation was established.

Particular concern was expressed during the committee's deliberations regarding a statement in the Auditor General's report that the level of spending on silviculture programs was less for 1998/99 than it was before FRBC was established in 1994. The report also raised the possibility that in fact fewer jobs are being provided through the silviculture programs now than in the early 1990's. The committee was also made aware that the corporation has not been reporting information about how its programs may be affecting future jobs in the harvesting and processing sectors.

To address these concerns, FRBC representatives advised the committee that the corporation has made substantial progress in its ability to report on short-term and long-term job creation, and considers the Auditor General's recommendation on this topic to be substantially implemented. A discussion of this issue can also be found in this report in the section relating to "Short-term and Long-term Job Creation Objectives".

The Chair and CEO of FRBC also submitted that in his view, silviculture work funded by the corporation in recent years has generally been consistent with the level of work being funded by industry and the Ministry of Forests, and does not create any cause for concern regarding reforestation in the province.

Financial and Economic Implications of Decisions

The Auditor General recommends that:

- *Forest Renewal BC should ensure that available analytical tools are used so it can understand the financial and economic implications of its decisions*

According to the Auditor General, there is increasing recognition of the need to conduct economic analysis of incremental silviculture activities in order to determine the likely return on investment. However, the committee heard that in its business plans FRBC has not provided any quantitative information about the returns it expects from its silviculture investments, despite the fact that there are tools available to aid in the assessment of the economic benefits of such investments. The Auditor General's report notes that similar concerns have been raised by the Select Standing Committee on Forests, Energy, Mines and Petroleum Resources during its review of FRBC's 1995/96 and 1998/99 business plans.

In this regard, FRBC representatives indicated that response to this recommendation is ongoing. They pointed out that the corporation's new Investment Management System tracks the corporation's investments and outputs, including those related to silviculture programs, and through the application of various factors and coefficients provides the board with a mechanism to monitor outputs and outcomes as they relate to targets. Currently, the corporation is able to report information on short-term jobs created through silviculture program investments, and uses coefficients to estimate long-term job creation.

However, FRBC witnesses did advise that they plan to continue a dialogue with the Auditor General's office regarding how well they are meeting the intent of the recommendation.

CONCLUSION

FRBC representatives clearly feel strongly about the value of the work funded by the corporation. However, throughout their testimony to the committee, they acknowledged that there is a need to refine the corporation's processes as they relate to setting objectives, monitoring performance and outputs, and measuring and reporting on outcomes of spending on silviculture programs. While the corporation has taken many steps since the 1998 audit to ensure that these processes are in place, work is continuing. There has also been ongoing dialogue between the corporation and the Auditor General's office about the audit's recommendations, and the actions being taken in response to them. A follow-up review is currently underway regarding the status of the Auditor General's recommendations, and the committee looks forward to receiving and considering further information on this topic during the fall of 2000.

Your Committee recommends that:

4. Forest Renewal BC implement the 21 recommendations relating to the corporation's silviculture programs contained in the Auditor General's 6th report for 1999/2000, *Forest Renewal BC: Planning and Accountability in the Corporation; The Silviculture Programs*.

APPENDICES

I - Written Submissions and Correspondence

- Forest Renewal BC, "Planning and Accountability Audit – Presentation to Public Accounts Committee", February 15, 2000
- Forest Renewal BC, "Silviculture Audit – Presentation to the Public Accounts Committee", February 15, 2000
- Office of the Auditor General of British Columbia, "Forest Renewal BC" (Presentation to the Select Standing Committee on Public Accounts), February 15, 2000
- Correspondence from Peter Gregory, Assistant Auditor General, to Craig James, Clerk of Committees, dated February 29, 2000
- Correspondence from Al Gorley, Chief Operating Officer, Forest Renewal BC, to Kelly Dunsdon, Committee Researcher, Office of the Clerk of Committees, dated March 2, 2000, with enclosure "Forest Renewal BC Response to the Committee"
- Correspondence from G.S. Jadrzyk, President, Northern Forest Products Association, to Craig James, Clerk of Committees, dated February 9, 2000
- Correspondence from G.S. Jadryzk to George Morfitt, Auditor General, dated November 30, 1999
- Correspondence from George Morfitt to G.S. Jadryzk, dated December 15, 1999
- Correspondence from George Morfitt to G.S. Jadryzk, dated December 17, 1999
- Correspondence from G.S. Jadryzk to George Morfitt, dated December 28, 1999
- Correspondence from C.A. Lasser, Mayor, District of Chetwynd, to George Morfitt, dated December 20, 1999
- Correspondence from Paul H. Jean, Mayor, The Corporation of the Village of Burns Lake, to George Morfitt, dated December 21, 1999
- Correspondence from Clay Iles, Mayor, District of Tumbler Ridge, to George Morfitt, dated December 22, 1999
- Correspondence from Sharon Smith, Councillor, District of Houston, to George Morfitt, dated December 28, 1999
- Correspondence from Pieter Weeber, Mayor, District of New Hazelton, to George Morfitt, dated December 10, 1999

II - Research Documents

- Government of British Columbia. *British Columbia's Forest Renewal Plan*, 1994.
- Province of British Columbia. *Forest Renewal Plan Briefing Book*, 1994.
- Forest Renewal BC, 1998/99 Business Plan
- Forest Renewal BC, 1999/2000 Business Plan
- Forest Renewal BC, 2000/01 Business Plan
- Forest Renewal BC, 1998/99 Annual Report
- Forest Renewal BC, Strategic Plan 1999-2003 and Strategic Plan Summary 1999-2003
- Forest Renewal BC, "Planning and Accountability Audit Recommendations – Action Plan", February 2000
- Forest Renewal BC, "Regional Forests and Environment Investment Planning Guidelines (Draft 2)", October 5, 1999
- Forest Renewal BC, "Guidelines for Forests and Environment Regional Investment Planning", September 1, 2000
- Forest Renewal BC, "Consolidated Statement of Operations for the Year ended March 31, 2000)

- Forest Renewal BC, "Forest Renewal BC Employment Impacts – Estimation and Reporting Procedures", February 2000
- Forest Renewal BC, "Second Quarter Report, 1999/00 Program Investments (as at September 30, 1999)
- Forest Renewal BC, "Forests and Environment: 1999/2000 Second Quarter Review Business Review"
- Forest Renewal BC, "Value-Added Q2 Update and Directions", November 18, 1999
- Forest Renewal BC, "Value-Added Investment Planning and Evaluation Tools" (prepared in response to request of the Select Standing Committee on Public Accounts)
- Forest Renewal BC, "Summary of Major Information Needs Relating to Silviculture", June 1999
- Government of British Columbia, "British Columbia Jobs & Timber Accord: Forest Jobs for BC", June 1997
- "Report dissed and dismissed before it's even released", Vaughn Palmer, *The Vancouver Sun*, October 19, 1999, p. A18
- "Auditor raps forest fund mishandling", Judith Lavoie, *Times-Colonist*, November 5, 1999, p. A1
- "Auditor slams forest agency", *The Province*, November 5, 1999, p. A16
- "Counter-attack on Morfitt turns into a retreat", Vaughn Palmer, *The Vancouver Sun*, November 5, 1999, p. A22
- "90's bad for forestry", Charlie Anderson, *The Province*, January 13, 2000, p. A35
- "Advocate urges clear timber policy", *Times-Colonist*, January 13, 2000, p. A4
- "Forest firms, environmentalist, co-operate", Arlin Hackman and Linda Coady, *Times-Colonist*, January 13, 2000, p. A11
- "Red tape stymied B.C. forestry report", Ann Gibbon, *The Globe and Mail*, January 13, 2000, p. B4
- "Auditor General slams spending by FRBC", Craig McInnes, *The Vancouver Sun*, November 5, 1999, p. A5